

Message Text

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ACTION EB-08

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TO SECSTATE WASHDC 6496

AMEMBASSY BRASILIA

AMCONSUL SAO PAULO

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E.O. 11652: N/A

TAGS: ETRD, EFIN, BR

SUBJECT: BRAZILIAN EXPORT INCENTIVES AND EXCHANGE RATE POLICY
DOMINATE DISCUSSION AT FOURTH NATIONAL EXPORTERS
CONFERENCE

REF: RIO 2604

1. SUMMARY: THE FOURTH ANNUAL NATIONAL EXPORTERS CONFERENCE (IV EMAEX), HELD IN RIO ON JULY 17-18, 1978, ENDED IN FRUSTRATION FOR BRAZILIAN PRIVATE SECTOR EXPORTERS WHO HAD SOUGHT TO INFLUENCE CURRENT GOB EXPORT INCENTIVE AND EXCHANGE RATE POLICIES. MORE THAN ONE THOUSAND REPRESENTATIVES OF THE BRAZILIAN PRIVATE EXPORTER COMMUNITY ATTENDED THE CONFERENCE SEEKING MAJOR REVISIONS IN GOB EXPORT-RELATED POLICIES. THESE POLICIES HAVE REMAINED BASICALLY UNCHANGED OVER THE PAST TEN YEARS AND, IN THE EXPORTERS' VIEW, HAVE NOT KEPT PACE WITH THE CHANGING INTERNATIONAL ECONOMIC ENVIRONMENT. HOWEVER, IN SPEECHES DELIVERED BY TOP GOB OFFICIALS ATTENDING IV EMAEX, MOST NOTABLY PRESIDENT GEISEL, FINANCE MINISTER HENRIQUE SIMONSEN AND PLANNING MINISTER
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REIS VELLOSO, THE EXPORTERS WERE GIVEN CLEAR INDICATIONS THAT THE GOB WAS NOT PLANNING ANY SUBSTANTIAL REVISIONS IN EITHER THE EXPORT INCENTIVES PROGRAM OR EXCHANGE RATE POLICY. THE ONLY FORTHCOMING PROPOSALS OFFERED BY A GOB OFFICIAL CAME FROM BENEDITO MOREIRA, DIRECTOR OF CACEX (THE FOREIGN TRADE DEPARTMENT OF THE BANK OF BRAZIL), AND THESE WERE LIMITED TO REDUCTIONS IN THE CUMBERSOME SET OF REGULATIONS GOVERNING EXPORTS AND IM-

PROVEMENTS IN BUREAUCRATIC EFFICIENCY WITHIN CACEX. (NOTE: FOR BACKGROUND ON DEBATE OVER GOB EXPORT INCENTIVE PROGRAM AND EXCHANGE RATE POLICY, SEE REFTEL). END SUMMARY.

2. THE NATIONAL EXPORTERS CONFERENCE RECEIVED EXTENSIVE PRESS COVERAGE IN ALL MAJOR BRAZILIAN DAILIES, WITH EMPHASIS PLACED ON PROPOSED CHANGES IN GOB EXPORT INCENTIVE PROGRAMS AND EXCHANGE RATE POLICY. THE PRINCIPAL ADVOCATES OF THESE CHANGES WERE COLONEL WANDERLINO MARIS, PRESIDENT OF THE BRAZILIAN EXPORTERS ASSOCIATION (AEB), AND AEB CHIEF ECONOMIC ADVISOR CARLOS GERALDO LANGONI. (NOTE: LANGONI IS ALSO DIRECTOR OF GRADUATE STUDIES AT THE GETULIO VARGAS FOUNDATION IN RIO). DURING PRESS CONFERENCES AND PREPARATORY MEETINGS PRIOR TO IV EMAEX, BOTH MARIS AND LANGONI SPOKE IN FAVOR OF SUBSTANTIAL CHANGES IN THE PRESENT GOB EXPORT INCENTIVE PROGRAM. IN THEIR VIEW, THE CURRENT GOB METHODS FOR PROVIDING EXPORT INCENTIVES (E.G. THE REBATE AND ADDITIONAL TAX CREDIT FOR STATE AND FEDERAL VALUE ADDED TAXES ON EXPORTS) HAVE BEEN FULLY EXPLOITED, AND NO LONGER REPRESENT VIABLE MEANS FOR INCREASING ASSISTANCE TO THE SMALL AND MEDIUM SIZED PRIVATE EXPORTERS MOST IN NEED OF INCENTIVES.

3. LANGONI STATED THAT, DURING THE 1970-1973 PERIOD, THESE FISCAL INCENTIVES TO EXPORTERS HAD GROWN BY 20-25 PERCENT FOR INDUSTRIALIZED PRODUCTS AND BY 10 PERCENT FOR PRIMARY PRODUCTS. HOWEVER, DURING THE 1974-1978 PERIOD, THE NET INCREASE IN FISCAL EXPORT INCENTIVES HAD BEEN ZERO. LANGONI ALSO NOTED THAT, EVEN LIMITED OFFICIAL USE

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IF THESE FISCAL INCENTIVES COULD BE INCREASED, THIS TYPE OF INCENTIVE WAS COMING UNDER INCREASING ATTACK BY MEMBERS OF GATT AND, THEREFORE, DID NOT REPRESENT A VIABLE OPTION FOR BRAZIL'S LONG RANGE EXPORT POLICY. MARIS ADDED THAT THE REVISION OF THE EXPORT SUBSIDY PROGRAM SHOULD INCLUDE A SHIFT FROM THE CURRENT METHOD OF PROVIDING GENERALIZED SUPPORT TO ALL EXPORTERS TO A CASE-BY-CASE APPROACH IN WHICH INDIVIDUAL FIRMS WOULD RECEIVE INCENTIVES ON THE BASIS OF RELATIVE ECONOMIC NEED AND EFFICIENCY. WITHIN THIS SYSTEM, MARIS ADVOCATED INCREASED ASSISTANCE FROM SMALL AND MEDIUM SIZED PRIVATE FIRMS, NOTING THAT ONLY 200 FIRMS, PREDOMINENTLY MULTINATIONALS AND STATE-OWNED COMPANIES, PRODUCED 76.8 PERCENT OF BRAZILIAN EXPORTS DURING 1977. DURING THE SAME YEAR, HE ADDED, 1500 OF THE 5200 SMALL AND MEDIUM SIZED PRIVATE FIRMS ENGAGED IN EXPORT HAD BEEN FORCED OUT OF THE EXPORT MARKET, SOME GOING OUT OF BUSINESS ALTOGETHER. ALONG THE SAME LINES, LANGONI SUGGESTED THAT FISCAL INCENTIVES BE DIRECTED INCREASINGLY TOWARD FIRMS WHICH EXPORT TO LATIN AMERICA, AFRICA AND THE MIDDLE EAST, WHERE PROTECTIONIST SENTIMENT AGAINST SUCH SUBSIDIES IS LESS PRONOUNCED.

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4. ALTHOUGH REVISIONS IN THE GOB EXPORT INCENTIVE PROGRAM WERE ADVOCATED, BOTH MARIS AND LANGONI, SUPPORTED BY A NUMBER OF MAJOR BRAZILIAN INDUSTRIALISTS, EMPHASIZED THE OVERRIDING NEED TO ALTER THE CURRENT BRAZILIAN EXCHANGE RATE MECHANISM. ALTHOUGH MARIS DOES NOT ADVOCATE A MAXI-DEVALUATION OF THE CRUZEIRO, A PROPOSAL WHICH HAS THE SUPPORT OF SOME BRAZILIAN ECONOMISTS AND BUSINESSMEN (SEE REFTTEL), HE ARGUES THAT THE 10 YEAR OLD SYSTEM OF MINIDEVALUATIONS HAS BECOME OUT OF STEP WITH CHANGES IN THE WORLD ECONOMY, RESULTING IN A GROWING OVERVALUATION OF THE CRUZEIRO. LANGONI ADVOCATED THE CREATION OF A SYSTEM OF "REAL" MINIDEVALUATIONS IN WHICH THE CRUZEIRO RATE WOULD BE ADJUSTED TO OFFSET THE DIFFERENCE BETWEEN BRAZILIAN AND WORLD INFLATION RATES. THIS WOULD INVOLVE PEGGING THE CRUZEIRO RATE TO A BASKET OF CURRENCIES RATHER THAN ADJUSTING THE CRUZEIRO SOLELY IN TERMS OF THE US DOLLAR AS UNDER CURRENT POLICY.

5. GOB OFFICIALS ATTENDING IV ENAEX SHOWED A STRONG
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COMMITMENT TO MAINTAINING GOVERNMENT SUPPORT FOR

EXPORTERS, BUT FAILED TO AGREE WITH THE PROPOSED CHANGES IN EXPORT INCENTIVE AND EXCHANGE RATE POLICIES. IN HIS OPENING ADDRESS TO THE CONFERENCE, PRESIDENT GEISEL REAFFIRMED THE GOVERNMENT COMMITMENT TO THE EXPORT INCENTIVE PROGRAM AND DEFENDED GOB POLICY AGAINST CRITICS WHO SOUGHT GREATER EMPHASIS ON INTERNAL MARKET DEVELOPMENT. GEISEL STATED THAT OVERALL NATIONAL DEVELOPMENT COULD NOT BE SUSTAINED WITH PERSISTENT BALANCE OF PAYMENTS DEFICITS AND, THEREFORE, INCREASED EXPORTS BECAME A "LOGICAL NECESSITY" WHICH WOULD CONTINUE TO RECEIVE GOB SUPPORT. GEISEL ALSO ANNOUNCED THE CREATION OF A BRAZILIAN EXPORT CREDIT INSURANCE AGENCY AS ONE NEW METHOD OF FACILITATING EXPORTS. GEISEL DID NOT, HOWEVER, RESPOND DIRECTLY TO THE EXPORTERS' PROPOSALS ON INCENTIVES AND EXCHANGE RATE POLICY.

6. PLANNING MINISTER REIS VELLOSO AND FINANCE MINISTER HENRIQUE SIMONSEN DIRECTED THEIR REMARKS TO THE EXPORTERS' PROPOSALS, AND BOTH MINISTERS DEFENDED CURRENT GOB POLICY. SPEAKING ON EXCHANGE RATE POLICY, VELLOSO STATED THAT THE GOB HAD ALREADY ACCELERATED THE PACE OF MINIDEVALUATIONS. HOWEVER, HE REJECTED LANGONI'S SYSTEM OF "REAL" MINIDEVALUATIONS, ARGUING THAT EXCHANGE RATE SHIFTS SHOULD NOT BE GOVERNED BY SUCH A RIGID FORMULA AND THAT THE GOB REQUIRED MORE FLEXIBILITY IN THIS AREA. SPEAKING EVEN MORE FORCEFULLY IN DEFENSE OF CURRENT GOB POLICY, SIMONSEN STATED THAT THE SYSTEM OF MINIDEVALUATIONS, WHICH WAS IMPLEMENTED 10 YEARS AGO, HAS PROVEN SUCCESSFUL, AND HE ADVOCATED ITS USE. "FOR AT LEAST ANOTHER 10 YEARS." SIMONSEN LIMITED OFFICIAL USE

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ALSO FLATLY DENIED THE POSSIBILITY OF A MAXIDEVALUATION OF THE CRUZEIRO. IN REFERENCE TO PROPOSED CHANGES IN THE EXPORT INCENTIVE PROGRAM, SIMONSEN FELT THAT THE GROWING ACCEPTANCE OF THE "INJURY CLAUSE" WITHIN THE GATT NEGOTIATIONS ON EXPORT SUBSIDIES WOULD PRECLUDE THE NEED FOR ANY ABRUPT CHANGE IN THE CURRENT GOB EXPORT INCENTIVE PROGRAM

7. CACEX DIRECTOR BENEDITO MOREIRA GAVE WHAT PRESS REPORTS DESCRIBED AS THE MOST OPTIMISTIC SPEECH OF THE GOB OFFICIALS ATTENDING THE CONFERENCE, MAKING SEVERAL RECOMMENDATIONS FOR IMPROVING GOVERNMENT EXPORT PROGRAMS. THESE INCLUDED REDUCTIONS OF GOB PRICE CONTROLS ON EXPORTS, ELIMINATION OF STATE VALUE ADDED TAXES (ICM) ON EXPORTS, IMPROVEMENT OF EXPORT FINANCING MECHANISMS AND STREAMLINING OF THE

FEDERAL BUREAUCRACY GOVERNING EXPORT PROGRAMS.
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